

RatingsDirect®

Summary:

Taunton, Massachusetts; General Obligation; Non-School State Programs

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Credit Profile

US\$4.59 mil st qual mun purp loan bnds ser 2014 due 03/01/2033

<i>Long Term Rating</i>	AA/Stable	New
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<i>School Issuer Credit Rating</i>	AA-/Stable	New
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Taunton GO

<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
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Rationale

Standard & Poor's Ratings Services assigned its 'AA' program rating and 'AA-' issuer credit rating (ICR) and stable outlook to Taunton, Mass.' series 2014 general obligation (GO) state-qualified municipal purpose bonds and affirmed its 'AA-' ICR, with a stable outlook, on the city's existing GO bonds based on Standard & Poor's local GO criteria, published Sept. 12, 2013, on RatingsDirect.

The 'AA' rating reflects our assessment of the security provided by the Massachusetts Qualified Bond Act. Under the Qualified Bond Act (Massachusetts General Law, Chapter 44A), the state treasurer pays debt service directly to the paying agent and withholds the amount of the payment from the borrower's annual state aid appropriation. Approval by the municipal finance oversight board, formerly the state emergency finance board, which oversees and monitors the program, is required.

The bonds are a GO of Taunton. Officials intend to use bond proceeds to finance improvements to the municipal light plant and refund bond anticipation notes (BANs) issued for high school and Parker School repairs.

The ICR reflects our opinion of the city's general creditworthiness, including its:

- Strong and improving economy in the Providence-Warwick metropolitan statistical area (MSA);
- Strong budgetary flexibility with fiscal 2013 available reserves, unassigned and assigned, of 13% of general fund expenditures;
- Strong budgetary performance following several years of general fund drawdowns;
- Very strong liquidity, providing very strong cash to cover debt service and expenditures;
- Adequate management practices, albeit with a renewed emphasis on building operating reserves to stronger levels; and
- Adequate debt and contingent liabilities, bolstered by a low debt-to-market-value ratio and aggressive debt amortization -- We, however, believe that Taunton's pension and other postemployment benefits (OPEB) liabilities are large and that costs will likely continue to increase over the next few years.

Strong economy

Taunton, with a population estimate of 56,000, is in southeastern Massachusetts, about 37 miles south of Boston and 16 miles east of Providence. We view its economy as strong since it participates in the Providence-Warwick MSA. Projected per capita effective buying income is 91.1% of the national level, and unemployment averaged 9.7% in 2013. In 2014, market value is \$89,007 per capita. While we note assessed value (AV) has decreased by 23% since peaking in fiscal 2007, there are signs in the local economy that the property tax base is stabilizing.

Based on our regional forecasts, we expect the regional economy to remain stable, albeit with lower growth compared with the nation. On a positive note, recent data indicate that the region's median home prices continue to improve and that housing starts will remain positive. In addition, the city has signed an intergovernmental agreement with the Wampanoag Tribe for a proposed resort and casino project; plans, however, have not been finalized since the plans await final state and federal approvals. We believe Taunton is poised to see improved growth and development in its tax base over the next few years that should also continue to underpin near-term financial performance.

About 78% of its tax base is residential properties while 18% is commercial and industrial properties. The 10 leading taxpayers account for a very diverse 4.8% of AV. The three leading taxpayers are Norton Hospital, Silver City Galleria, and Verizon New England; all three pay upwards of \$1 million in annual taxes, and they are all stable.

Strong budget flexibility

Despite several years of general fund decreases, budgetary flexibility improved to, what we consider, strong levels in fiscal 2013 with no plans to spend reserves down materially. Taunton closed fiscal 2013 with available reserves of 13% of expenditures. The city hopes to continue to build reserves over the next few fiscal years to prerecession levels, particularly if economic development takes hold. At the very least, we expect reserves to remain at current levels through fiscal 2015.

Strong budgetary performance

Following several years of fiscal imbalance, reflecting lower state aid and local receipts, budgetary performance has improved. For fiscal 2013, the general fund closed with an operating surplus of \$5.9 million, or 3.6% of expenditures. Total governmental funds experienced a surplus of \$2 million, or 1% of total governmental funds expenditures. This marks the second consecutive year the city produced a favorable operating result.

Taunton's improved financial performance stems from several factors. The city has raised its tax levy annually up to its allowable limit, and it has also actively negotiated with collective bargaining unions for budgetary savings. State aid and local receipts have also improved as the economy has improved. Property taxes generate 47% of revenue and state aid accounts for 37%. Tax collections are, what we view as, strong and stable with the city typically receiving 98% of current collections.

Due to Taunton's stable revenue profile, we expect budgetary performance to remain at least, what we consider, strong over the next few fiscal years. Taunton expects balanced operating results in fiscal 2014. Education is the largest expenditure, accounting for 44%.

Very strong liquidity

Supporting Taunton's finances is, what we consider, very strong liquidity with total government available cash of

18.4% of total governmental funds expenditures and 363% of debt service. In addition, we believe Taunton has strong access to external liquidity because it has issued bonds frequently over the past several years, including GO bonds and short-term BANs.

Adequate management

We consider Taunton's management practices adequate with "standard" financial management policies under its Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Highlights include management's regular budget monitoring and, what we regard as, generally conservative revenue and expenditure assumptions. The city does not maintain any reserve or liquidity policies, and it does not maintain a comprehensive capital plan. Management performs budget forecasts informally for each department.

We note that over the past few fiscal years, Taunton has issued its financial statements on a delayed basis. Management attributes the delays to staffing and difficulty in collecting data regarding various state aid amounts owed to the city. Recently, however, management has been better at producing timely financial disclosures.

Adequate debt and contingent liabilities profile

In our opinion, Taunton's debt and contingent liabilities profile is adequate with debt service of 5.1% of total governmental funds expenditures and net direct debt of 61.6% of total governmental funds revenue. Taunton's overall net debt is, in our view, a low 2.5% of market value. We consider principal debt amortization fairly aggressive with officials planning to retire roughly 70% over 10 years and 100% over 20 years.

Long-term credit considerations, however, are Taunton's pension and OPEB liabilities. Pension and OPEB costs increased over the past few fiscal years to about 11% of total governmental funds expenditures in fiscal 2013, and we believe these costs will continue to increase over the next few years due to current funding. Taunton's pension plan had an unfunded actuarial accrued liability of \$129 million as of January 2012, or a 62% funded level. The city has been funding 100% of the annual required contribution (ARC), and it is on schedule to fund the liability in full by fiscal 2030.

Taunton's unfunded OPEB liability is, in our opinion, a sizable \$322 million. While the city has explored ways to lower the liability, we believe funding the ARC in full will remain a considerable challenge. The ARC for fiscal 2013 was \$20.7 million; the city's pay-as-you-go contribution was \$7.4 million, or about 38% of the ARC.

Strong Institutional Framework

We consider the Institutional Framework score for Massachusetts municipalities strong.

Outlook

The stable outlook on the state-qualified bond issues mirrors the outlook on the commonwealth. The outlook on the ICR reflects Standard & Poor's opinion of Taunton's improving economy and focus on rebuilding operating flexibility. We believe Taunton's improved budgetary outlook is likely to translate into stronger available reserves, particularly as the economy rebounds. Moreover, we believe there is a strong possibility economic measures will likely improve as new development projects gain traction. We also think the debt and liabilities profile will likely remain adequate. In our

view, the city's sizable unfunded pension and OPEB liabilities will likely remain a credit constraint and costs will likely continue to rise; we, however, currently believe that those costs are manageable and that they do not pose an immediate budgetary challenge. For these reasons, we do not expect to change the rating over the two-year outlook period.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- U.S. State And Local Government Credit Conditions Forecast, April 7, 2014

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

Ratings Detail (As Of May 14, 2014)		
Taunton GO state qual bnds		
Long Term Rating	AA/Stable	Affirmed
Taunton GO st qual mun purp ln bnds		
Long Term Rating	AA/Stable	Affirmed
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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